

DECLINE AND FALL OF BRITISH POWER: 1963 TO 1990. INTRODUCTION

Chris Weston

*PhD, President at Weston Consulting
Warsaw*

The purpose of this paper is to examine the decline and fall of British power. "Power" is defined as the ability to influence another party and Michael Mann's four sources of social power is employed as an analytical tool.

The paper takes as its starting point the state of Britain at the end of 1963 when the Labour Party was about to retake power following thirteen years in office by the Conservative Party to 1990 when Thatcher resigned.

At the heart of the analysis lies the course of Economic Power which remained the Achilles heel of Britain's decline and fall and indeed continued a trend witnessed in the aftermath of the end of the Second World War when Britain was forced to grant India its independence. Britain faced the threat of a devalued currency on several occasions in the period to 1963 and was forced to devalue its currency in 1967.

The paper briefly considers whether the UK should have agreed to the US request for support in the Vietnam War. While other countries, such as Canada and South Korea materially benefitted from their involvement in the war, the UK did not and limited itself to covert assistance – its default setting in maintaining the special relationship with the USA.

The UK eventually secured entry into the European project but this was at a most propitious time when the effects of the oil price increases impacted upon the country at a time of considerable upheaval in the economy – some homemade i.e industrial strife, some imported through the inflationary effects of the Vietnam War.

Britain's economic crisis would culminate in its recourse to a bailout from the IMF in 1976.

The paper then goes on to consider the effects of the Thatcher years. Britain's Military Power was enhanced in the victory of the Falklands War and Political Power was positively impacted but this did not translate into securing a greater role in Europe or more influence over the US in the special relationship. It also questions whether the Thatcher years saw any real enhancement in the country's Economic Power.

The paper also considers whether the significant investment in sigint and covert means really magnified Britain's power to any significant extent. The special relationship had been maintained but to unclear ends. The investment provided no discernible advantage in further its position in the European project given the UK's proximity to the USA.

Britain's Economic Power remained fragile albeit the collapse of Britain's manufacturing base now led to increased reliance on the financial sector to fill this "gap".

The next article in the series will examine the course of the UK to the present day and its options in the light of the Brexit decision.

В статті проаналізовано за допомогою джерел соціальної влади Манна курс та поведінку на політичній арені Великої Британії в період з 1963 по 1990 роки. Дослідження охоплює період з початку 1963 року, коли лейбористська партія намагалась повернутись до влади, до 1990 року, коли Маргарет Тетчер пішла з поста Прем'єр міністра Великої Британії

В основі аналізу даної статті лежить економічний курс Великої Британії, який залишався Ахіллесовою п'ятою падіння та занепаду Великобританії і продовжував цю тенденцію після Другої Світової війни.

У роботі розглядаються «особливі відносини» США та Великої Британії, проявом яких була неучасть останньої у війні у В'єтнамі. Автор розглядає економічну кризу у Великої Британії та роки прем'єрства Маргарет Тетчер. Також розглянуто питання чи дійсно політична влада при Тетчер призвела до посилення економічної потуги країни та забезпечення більшої ролі у Європі та збільшення впливу на «особливі відносини» з США. Окрім того, в статті розглядається питання впливу інвестицій у розвідку та збільшення потуги Великої Британії. Автор доходить висновку, що економічна сила Великої Британії залишається крихкою, хоча розвал британської виробничої бази зараз призвів до посилення залежності від фінансового сектора, щоб заповнити цю «діру».

Ця стаття є третьою у серії, присвяченій вивченню падіння та занепаду влади / потуги Британії з 1963 року.

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Key words: Great Britain, sources of social power, Margaret Thatcher, economic power.

The purpose of this paper is to examine, with the aid of the Sources of Social Power, as noted by Mann, the conduct and course of Britain from 1963 up to 1990.

The sources of social power are as follows:

- Economic
- Political
- Military
- Ideological

Mann in the course of his four works on this has also outlined a fifth source of power – that of Leadership [17]. This factor has been a recurring theme in the missteps by Britain's political leadership throughout. Indeed, the charge levelled against Yasser Arafat and the PLO in respect of supposed Middle East peace overtures that "they never missed an opportunity to miss an opportunity, could equally apply to Britain's political leaders in the post war period in its handling of the European project as they misjudged or underestimated the Europeans in their undertaking notwithstanding Britain's ability to lead in the immediate aftermath of the conclusion of the Second World War. Britain was not "present at the creation" of this venture¹.

This would be compounded by Britain's reduced Economic Power in the wake of the war and compounded by the loss of India. The UK would divert the US lending into financing its residual Military Power in its official (and unofficial) Empire or to support its existing archipelagos of Economic Power in, for example, Iran and Malaya as well as the Suez Canal. If there is an underlying theme to this paper it is one of the recurring crises that the UK would face as hard, brutal realities of diminished Economic Power collided with the illusions and delusions of Political Power.

In the early 1960s, the political leadership in the UK had eventually, if belatedly, woken up to the importance of the European project for British political and economic prospects. On this narrow basis, Macmillan deserves some credit although to "will the ends" also necessitated that he "will the means". His "reach" for the US nuclear agreement to ensure a weapons' delivery agreement exceeded his "grasp" of how the Europeans would react. The French vetoed UK membership in January 1963.

Indeed, the 1960s would see a further veto of prospective membership of the EEC in November 1967 when the then Prime Minister, Harold Wilson, came reluctantly and grudgingly (and half-heartedly, as later events would prove) to the same perspective that Britain's future prospects also depended on such membership.

But that was after a series of unfortunate events culminating in Britain devaluing the pound that led to the impairment of its Economic Power also registered on the consciousness of Britain's leadership in addition to its diminishing Political (and Military?) Power.

¹ As used by Dean Acheson, the US Secretary of State under Truman from 1949 – 53 and one of the architects of the US post war global role, for the title of his memoirs. He is also noteworthy for his comment of Britain made in December 1962 that "(it) had lost an Empire and has not yet found a role". Those words are as true now as they were when first made after Brexit. The puffery of a "Global Britain" now proffered merely underlines the validity of his statement.

Finally, the approach also builds into its narrative consideration of the “hidden power” exercised by Britain’s intelligence services. It is argued that this should also be considered as such services were often applied as instruments of achieving influence (or power) and their significance cannot be therefore ignored. Indeed, according to Aldrich, just the cost of sigint (signals intelligence) in 1963-4 amounted to GBP 20.5 million versus GBP 21.8 million for the total cost of the Foreign Office (Britain’s Ministry of External Affairs), encompassing the expenditures on embassies and diplomats, and was set to increase further. Furthermore, UK’s sigint employed 11,500 staff (of which 8,000 were employed at GCHQ’s Cheltenham location) outnumbered those employed in the UK diplomatic service [2]. This considerable investment in resources was a natural outgrowth of Britain’s wartime expertise in this area – best exemplified by the breaking of the German’s Enigma code machine. Britain also conducted a significant number of joint operations with other intelligence services such as the CIA and Australian SIS in furtherance of foreign policy objectives, such as in Iran (1953) and in Indonesia (1965) as well as Vietnam. This conduct of securing power by such means has been commented upon by Verrier [22] and its consequences have not been insignificant in Britain’s continued striving for power in the post war period.

Britain’s mounting economic problems

The pound sterling constituted more than the standard economic definition of a currency embodying a unit of account, a store of value and means of exchange. It represented how Britain considered itself – a legacy of an apparently illustrious path. The pound sterling – whose value was backed by gold and supported by the Bank of England – was an international currency, that was enabled by the British Royal Navy which operated in all the world’s oceans and seas over the course of the nineteenth and early twentieth century. Thus, Military Power co existed and mutually reinforced Economic Power.

It is also worth bearing in mind that while manufacturing and trade in goods was an important aspect of Britain’s Economic Power, finance and financial services were (and still are) a vital contributor to the economy. In his work, Hobsbawm noted two important sets of economic statistics which might give us cause to reflect on Britain and the myths surrounding its latent power: the first concerned the fact that at the start of the nineteenth century, notwithstanding Britain’s reputation for invention and innovation, monies spent on gambling on horseracing (a popular pastime of the aristocracy in place and in-waiting) exceeded that on investment.

The second concerned the balance of payments at the end of the nineteenth century whereby the balance of trade of goods was exceeded by that of the trade in services i.e. financial as earned by the City of London, which in turn was far exceeded by the earnings derived from the huge investments in Latin America, the USA, Europe, India and other destinations for surplus capital [14]. Britain was the rentier-capitalist, par excellence – it cupped its hands in the world’s “river of profits”.

The two world wars would bankrupt the country and paradoxically, the pound became as much a symbol of its weakness and reduced power, as the totem of its continued influence in the world. The City of London depended on a strong pound to ensure that monies continued to flow to it for safekeeping and to avoid “original sin” – a mismatch of foreign liabilities exceeding assets. This was reflected in the sterling reserves of GBP 4.5 billion held by foreign investors. Furthermore, manufacturing needed a fall in the pound to boost exports; while, given Britain’s need to import food, oil and other products, a strong pound was needed. Previously, we have noted the importance of dollars to the economy. A declining pound against the dollar would therefore increase the costs to British consumer and producer alike.

A significant proportion of government economic policy in the post war period was about managing the inter related Military, Political and Economic Powers arising from this conundrum i.e. a strong pound required by the City to reassure investors conflicted with the need for a low pound to increase exports. That it was never really resolved satisfactorily led to everyone’s shared dissatisfaction.

The US had attached conditions to the loan provided to the UK in December 1945 of GBP 3.75 billion which had included making the pound sterling fully convertible to the US\$. When this took place in July 1947, it immediately led to a currency crisis in Britain and convertibility was suspended after just five weeks. A further balance of payments crisis in 1949 forced the then Chancellor of the Exchequer, Stafford Cripps, into announcing a devaluation of the pound. The trauma of the devaluation would influence the leadership of the Labour Party in the 1960s when it returned to government.

Indeed, Wilson’s first three years in office (1964 to 1967) were dominated by an ultimately doomed effort to stave off the devaluation of the pound. He had inherited an unusually large external deficit on the balance of trade when taking over from the Conservative Party which had been in office for thirteen years. This deficit was, in part, due to the preceding government’s expansionary fiscal policy in the run-up to the 1964 election, and the incoming government had resorted to tightening the fiscal stance in response; partly due to Britain’s low productivity and therefore its loss of global competitiveness; and later due to the after effects of the Six-Day War in the Middle East in 1967 which increased the price of oil. Many British economists had advocated devaluation, but Wilson had quelled such talk, reportedly in part out of concern that Labour, which had previously devalued sterling in 1949, would become tagged as “the party of devalua-

tion". However, market pressures in the form of external investors – memorably labelled as “the Gnomes of Zurich” – forced the government into a devaluation of sterling by 14% in 1967.

Wilson was much derided for a broadcast in which he assured the British people that the “pound in your pocket” had not lost its value. The Chancellor of the Exchequer, James Callaghan, would later be switched with Roy Jenkins at the Home Office (Britain’s Ministry of Internal Affairs). Jenkins would do much over the coming two years to stabilise Britain’s financial and economic situation.

Vietnam and East of Suez

The devaluation of sterling would lead to a reassessment of Britain’s foreign and defence commitments and in January 1968, the government announced its “East of Suez” policy withdrawing from its military bases in South East Asia, principally Malaysia and Singapore as well as the Persian Gulf and Maldives by 1971.

Britain would still remain in Hong Kong until 1997 when it handed over the territory back to China. Britain would still remain engaged in the Gulf albeit its commitment was much reduced. The then ongoing conflict (an insurgency) in Oman against the ruler, who was a longstanding British ally, would last until 1974/5.

Of interest is the move against the backdrop of the ongoing war in Vietnam. The (second) Gulf of Tonkin incident in August 1964 would lead to a dramatic escalation of US involvement in South Vietnam under President Johnson. The USA would, as a result, solicit the engagement of a number of its allies in the war, including South Korea, Australia and New Zealand.

Johnson would also approach the British government under Harold Wilson [21]. The Wilson premiership of 1964 – 70 has attracted a range of views from relatively poor to the outright mediocre². Much was promised by Wilson in the run up to election with the “white heat of technology” and dramatic change after the thirteen years of continuous Conservative Party rule. To borrow from a criticism which was levelled (rather unfairly by of all people, Churchill, with whom Atlee had served in the wartime coalition government) against Atlee, Wilson was “a modest man with plenty to be modest about”. His government (and again in 1974-76) reflected that assessment.

Most positive assessments of the Wilson first government include some form of wording that he at least kept the country out of the morass of the Vietnam War [19]³. But was this actually correct?

The UK had had some initial involvement in South Vietnam arising from its enhanced reputation (Military Power) from the Malaya Emergency (see Paper II). Sir Robert Thompson, the last Secretary of Defence of the Federation of Malaya) had visited Saigon in the early 1960s to advise on the setting up a new Security Intelligence Bureau for then President Diem [4] (It was Diem who would be assassinated in 1963 in a coup supported by US President Kennedy.)

In July 1965, the UK government’s Cabinet Secretary, Burke Trend had met with the National Security Council head to discuss US opposition to the British plans to “thin out” its military forces “east of Suez”. The UK still maintained 54,000 troops in south east Asia following the Borneo confrontation with Indonesia. The Americans were outlining – undoubtedly with an eye to previous transactions conducted – a *quid pro quo* of one billion dollars of financial support for the UK in return for the presence of a British army brigade – around two thousand men [23].

The British government were not predisposed to an overt intervention – fearing adverse public opinion at home and international opprobrium from Europe – but were willing to provide intelligence and covert assistance to the US in all ways possible short of a full military engagement. This entailed the provision of arms and equipment from Malaya (following the end of the war there) to South Vietnam; the training of various armed units in bases in south east Asia; the “rebadging” of British special forces personnel to Australia and New Zealand units and indeed also to the US army, in order to fight in South Vietnam; the use of MI6 personnel stationed in the British Embassy in Hanoi to provide intelligence otherwise denied to the USA; as well as the full use of the GCHQ monitoring station in Hong Kong, Little Sai Wen (UKC 201) to intercept North Vietnamese military and diplomatic radio traffic. Indeed the latter proved invaluable to the US bombing missions over North Vietnam [9].

(The British support of US objectives to roll back third world and/or nonaligned countries would extend to the involvement of MI6 with the CIA and Australian SIS in the military coup in Indonesia against Sukarno and his replacement by General Suharto. The coup would lead to a massive program against the Indonesian Communist Party and opponents which would result in over a million deaths by violent means. Lists of such opponents were prepared by MI6/CIA and handed over to Indonesian military and Islamist death squads to eliminate in the massacres).

² Hennessey, the doyen of contemporary British political history rather generously assesses Wilson, together with Macmillan (premier from 1957 – 630, as falling into the “unfulfilled-promise category”. Both, in his view, were exceptionally intelligent (as well as media-savvy) but despite being aware of Britain’s deep-seated economic and political problems, as well as advertising their abilities to overcome, “Neither can be said to have done more, at best, than to identify part of the bundle of near intractable problems – and to hold still further decline at bay...they were victims of...political failure” [13].

³ When he describes that Wilson “courageously, persistently and despite the strongest inducements, declined to provide (British soldiers)”. I think Pimlott needed to be more nuanced here as this is not exactly borne out by the facts.

It is interesting to note the British involvement with that of others who pursued more overt demonstrations. For example, Australia (a fellow member of the Five Eyes arrangement) provided up to 8,000 men to fight in South Vietnam. While Canada (like Australia, a fellow member of the Commonwealth) did not commit its army, thousands of Canadians enrolled in the US military to fight.

On the economic side, Canada's involvement was far more significant – 500 firms sold US \$ 2.5 billion of war materials (ammunition, napalm, aircraft engines and explosives) to the Pentagon. Another \$10 billion in food, beverages, berets and boots for the troops was exported to the U.S., as well as nickel, copper, lead, oil, brass for shell casings, wiring, plate armour and military transport. In Canada unemployment fell to record low levels of 3.9%.

South Korea's role was even more pronounced. Its military contribution was second only to the US with 60,000 troops fighting at any one time. This involvement was essentially paid for by the US. In addition, the US provide significant financial aid and assistance to South Korea over the period which essentially transformed the country's economic position. South Korean *Chaebols* essentially derived a significant amount of their business success from their engagement in Vietnam War contracts. South Korea also received beneficial trade conditions with the USA. The USA would also ensure in the 1970s that a significant proportion of the petrodollars earned by Middle East countries i.e. Iran, Saudi Arabia etc, was recycled through South Korea. A considerable measure of South Korea's wealth emanated from the Vietnam War.

The contrast with the UK could not be starker as it stumbled from one financial crisis to another over the decade culminating in the IMF bailout of 1976. Even before formally coming to power, Wilson and Callaghan (later Chancellor of the Exchequer and Prime Minister after Wilson's resignation in 1976 up to 1979), had negotiated a secret understanding with the New York Federal Reserve that the new government would not devalue the pound. The Americans would support the pound sterling but only in return for the UK supporting US diplomatic and strategic objectives.

This mutual support was actually constrained in a number of ways. Firstly, the US dollar was tethered to the pound in a manner befitting two Alpine climbers being roped together; thus if one fell, the other may also be dragged down. The escalating cost of the Vietnam War was placing significant pressure on the dollar itself. Problems with the pound could easily be displaced to the US dollar which over the course of the 1960s was facing the Triffin Dilemma whereby the dollars in circulation in the world far exceeded the capacity of the US gold reserves to honour despite the link of the US dollar to the gold price. Indeed, the run on the pound in 1967 would lead to the closing of the London Gold Pool in March 1968. This arrangement, established by eight leading nations, had contributed a share of their gold reserves to underwrite the convertibility of the USD to gold. The run on the pound placed pressure on the further operation of this arrangement as investors swapped the pound for gold to avoid the inevitable devaluation.

It is of interest against this backdrop of a devaluation long avoided but now taking place with a vengeance, together with decisions to cut public spending to restore the nation's finances, which also entailed a thinning out of British military resources "east of Suez", that Wilson made a second application for the UK to join the Common Market. Again, the European project looked again rather more like one more desperate throw of the dice by the British political class as opposed to a concrete step to resolve a bundle of inter related political and economic issues and, borrowing from Acheson, determining its role in the world order.

The essence of Britain's problem was that it was seeking the "special relationship" with the USA by covert means and methods. It enjoyed a significant working relationship with the USA in terms of sharing intelligence and collaborating in the Third World e.g. Indonesia. It often shared similar world views on defeating world communism or third world independence movements infringing on its economic power but it now appeared unwilling to translate this into open means of exchanging Military Power i.e. backing the US in Vietnam, in return for its Economic Power not being diminished by debilitating financial crises. While Washington did not turn down this assistance, what it really needed was open support – in the form of a fighting force – and Wilson was not ever able to deliver. Wilson also knew that he needed the US to underwrite the pound. The fact that this policy was unsustainable because the circle could not be squared was to cause Wilson serious damage to his and his government's reputation once devaluation became inevitable. It also meant that Wilson's application for European membership looked exactly like the desperate last measure it appeared. Wilson's guile and flair for tactical measures which wrong-footed colleagues and opponents alike did not assist when it came to setting out a strategy to meet Britain's need for economic reforms and seeking a political role now that it had no empire, as well as the self-discipline and self-awareness to realise it. If Wilson appeared to be just reacting to events that was because he often preferred to manage affairs that way rather than making decisions that required choices.

With respect to Vietnam, the UK did not translate its support into enhanced British Economic Power like Canada and South Korea, because it was unwilling to commit overtly its Military Power; the USA was not able, for its own reasons, to underwrite the pound due to its own weaknesses and because it saw no concrete overt support in terms of British Military Power in South Vietnam.

As in January 1963, the special relationship was not translating into hard edged benefits for Britain in troubling economic times. It was also not providing much of a substitute for the many potential opportunities from the European project.

The Triumph and Tragedy of Edward Heath's Premiership

Heath was most likely the last "European minded" Prime Minister the country has had and probably the last to query whether the UK really did enjoy any significant benefits from the so called "special relationship" with the USA.

His background and experience were important in explaining why: as a university undergraduate he had travelled widely in Europe. He had become President of the Oxford University Conservative Association as a pro Spanish Republic candidate in opposition to a Franco supporting opponent at a time of the civil war (1936-9). He had visited Germany in 1937 and had attended the Nuremburg Rally where he had met the Nazi leadership – of Himmler, he would later say: "He was the evillest man I ever met". He had campaigned against the appeasement line being adopted by the National government in the run up to the war in 1939 [11].

Heath had been the government minister tasked with negotiating Britain's membership of the Common Market in the 1960s which later faced the veto by De Gaulle.

Heath was however to be successful in ensuring Britain's membership of the Common Market from 1 January 1973 following the passing of the European Communities Act in October 1972⁴.

UK from the USA. As noted by Aldrich, Heath queried what exact benefits the UK enjoyed from the USA in terms of the intelligence and relationship with the USA. This would inform him when the October 1973 war took place between Israel on one side, and Egypt and Syria on the other.

Heath placed an arms embargo on the combatants which largely affected the Israelis. He refused to allow the US to gather intelligence from British facilities in Cyprus and the mainland which would be used to benefit Israel. He further refused the US to resupply Israel by denying them access to British overseas facilities. The US as a result sought to terminate the intelligence relationship with the UK. Britain also then sought to develop a deeper intelligence relationship with France.

Whilst not evident at the time – or even since for a variety of reasons – the UK would benefit from its membership of the Common Market, one of the world's largest trading blocs. Mann has noted that Economic Power often moves at glacial pace but is nonetheless remorseless in its impact. According to Professor Crafts, the advantage of the UK joining the European project was that it "raised the level of real GDP per person in the UK compared with the alternative of staying in EFTA... the impact was an annual gain equivalent to about 10 per cent of GDP"⁵. Given the UK's poor historic performance since the war, this was a substantive gain to the economy. It would, however, be overshadowed by other events that would fasten more in the minds of the British populace.

Heath's achievement of membership of the European project for the UK almost a quarter of the century after its creation would be forgotten in the wake of the post October 1973 increases in oil prices by OPEC and the three-day working week; industrial strife with trade unions culminating in the Miners' strike; and the deteriorating intercommunal situation in Northern Ireland with bombings and assassinations and an increased British army presence on the streets [5].

For Heath, it was increasingly "the worst of times". Heath would call an ill-fated election in February 1974 on the basis of "Who Governs Britain?" i.e. the government or trade unions, which he would lose marginally – the British electorate would eventually run out of patience with trade unions only in 1979 when it elected Margaret Thatcher – and he would lose again in October 1974 when the Wilson government won a small minority.

Heath would then lose the leadership election to Margaret Thatcher in February 1975. His "European success" counting little against losing two general elections in quick succession. His wider legacy of pursuing a more Europe oriented policy would also be unwound as leaders of both parties sought to pursue some more limited form of European policy while, at the same time, seeking to maintain as close as possible "special relationship" with the USA.

The Wilson Interregnum and the Callaghan premiership

In the light of the current difficulties experienced by the May government and the considerable influence wielded by the Brexiteers both in the Cabinet and the Conservative Party backbenches, it may therefore appear difficult to believe now that it was the Labour Party itself which appeared split on Europe in the period up to the 1970s.

⁴ He notes that Heath falls into the "special, system-shifting stewardship" category who "moved his country into an utterly different geopolitical position". Without Heath's management of the French President Pompidou (who succeeded the veto wielding De Gaulle), Hennessey is not convinced UK membership of the EU would have been achieved. Heath's memoirs – cited above, 1998, are fascinating for Heath's personal interactions with Pompidou.

⁵ See p. 15, <http://www.smf.co.uk/wp-content/uploads/2016/04/SMF-CAGE-The-Growth-Effects-of-EU-Membership-for-the-UK-a-Review-of-the-Evidence-.pdf>.

We have already noted that the Labour leadership was deeply sceptical of the European project from the onset. Atlee demonstrated no leadership in this matter; his deputy, Morrison, did not believe the major union support would countenance involvement; while Gaitskell was firmly opposed and harbouring – like Atlee – a hankering for a “socialist commonwealth” or just the Commonwealth. Wilson – a person not known for any firm convictions on anything and devoted above all to short term tactical victories that furthered his maintenance of power – had, when all other options had exhausted themselves or illusions had been firmly extinguished by events, opted to seek membership of the European project and had been denied. It had been left to Heath therefore to achieve what had hitherto remained impossible or not feasible.

For these reasons as well as tactical advantage, the Labour Party under Wilson sought to vote against the passing of the European Communities Act in October 1972. However, Roy Jenkins, the then Deputy Leader who had been one of the few successful government ministers in an otherwise poor Wilson administration of 1964-70, decided to lead 69 other Labour MPs in supporting the Heath government, thus ensuring its success.

Jenkins would resign six months later from his leading opposition role given the Wilson decision to hold a referendum on whether to continue membership of the Common Market if it was returned to power. Jenkins would later go on to become the first British President of the European Commission in 1977-81 [6].

On the defeat of Heath in the two general elections held in 1974, the referendum on continued membership was to take place in October 1975 after a supposed renegotiation with the other European members. Shades of this approach would be seen in Cameron’s later attempts to also renegotiate the UK’s terms of membership in the aftermath of his election victory in 2015. The October 1975 Referendum saw a two-thirds majority in favour of remaining after only marginal amendments were agreed by European partners to give Wilson a political “fig leaf” at home to claim victory in his negotiations.

In March 1976, Wilson resigned from the premiership due to ill health and James Callaghan became prime minister after a leadership contest. Callaghan had been Chancellor of the Exchequer between 1964 and 1967 when the UK experienced a major devaluation due to economic troubles.

Callaghan inherited a steadily worsening economic crisis. Inflation, which had run into double digits before Labour came to power, due in part to oil price increases, was now above 20%. It would remain high for the rest of his premiership, rarely falling below 10%. Unemployment was now well in excess of one million, whereas it had been less than 600,000 at the start of the 1970s. Britain’s Economic Power would be impacted by the need to approach the IMF in 1976 for a temporary loan of USD 4 billion to avoid yet another sterling crisis [8]. The price for this loan was the need to effect deep cuts in government expenditures and the implementation of monetary targets thereby anticipating the later Thatcher era monetarist experiment.

Callaghan’s cabinet might be described as collegial – it spent a considerable time debating options to the IMF bailout such as launching a “siege economy” – but overall it displayed a lack of firmness and leadership in less than propitious times. Callaghan’s government can, in no way, be described as that one “of all the talents” although it boasted ministers of some experience. That “experience” being of having served in the ill-fated Wilson governments. Indeed, Callaghan’s first move was to remove two of its senior ministers.

The first was Roy Jenkins who had been one of the more accomplished cabinet ministers in the Wilson government and had been a proponent of UK’s European project membership. He was sent to Brussels to become the UK’s appointee as EU President. This was deemed less an indicator of the UK’s attachment to Europe, as the British equivalent of the Soviet era practise by which Khrushchev dispatched political enemies to run power stations in far flung regions remote from the real centre of power.

The second, Barbara Castle, was dismissed for being a political enemy of Callaghan. In 1969, Castle, as Secretary of State for Employment, had pushed a government paper, *In Place of Strife*, to seek to control the powers wielded by trade unions which were contributing to the marked lack of competitiveness in the British economy and poor state of industrial relations. In retrospect, it is interesting to reflect on the Heath government’s attempts in this area – lacking any cross-party support with the Labour Party in opposition – and the vastly more wide ranging efforts undertaken by the later Thatcher government – when compared with the relatively modest Castle proposals for reform. It was Callaghan who led the opposition in Cabinet and who ultimately had the reforms withdrawn by forcing a humiliating climbdown on both Wilson and Castle.

Callaghan’s own fall in 1979 would be much assisted by the trade unions in the strikes during the Winter of Discontent when rubbish was left uncollected in the streets and even, it was reported, dead bodies could not be buried due to industrial action.

British voters – and a not inconsiderable number who were themselves trade unionists – felt that “enough was enough” and voted for the Conservative Party. Mrs Thatcher generally attracted lower ratings in opinion polls than the Labour Prime Minister Callaghan. There was no clear ideological factor visible at the time; what would become better known as Thatcherism would really emerge later in “fits and starts”. The British people were by no means as motivated by the dream of untrammelled free markets and capitalism as might have been imputed years later. The British had perhaps voted very narrowly for Labour in 1974 in

the vain hope that they could avoid the question that the Heath government had posed as to “who governs Britain”. It had provided an answer of sorts and in the fullness of time would face the consequences of that lack of agreement with Heath on the seriousness of this problem.

By May 1979, Britain's Economic Power was viewed as being compromised by the IMF bailout and the dawning realisation that its economic base was hugely uncompetitive. Its Political Power *internationally* mirrored its position *domestically* with a perceived malaise permeating perceptions by foreign leaders. A (leaked) letter by a departing UK ambassador pointed to the UK's poor international standing albeit this was somewhat masked by the overall poor position of the West in the face of the then Soviet threat. All the western countries faced a further bout of economic difficulties arising the fall of the Shah of Iran following the Islamic Revolution of Ayatollah Khomeini, and the near doubling of the oil price during 1979. US President Carter's term in office was viewed as particularly weak.

Britain's Military Power – given it was shorn of its “East of Suez” role – was mired in an increasingly fraught insurgency in Northern Ireland against the Provisional IRA. That said, the Labour government had agreed to modernise the British nuclear deterrent with the Chevaline programme [3]⁶.

Britain's “hidden power” remained although it had seemingly underestimated the Iranian uprising. The major Sigint complex in Cyprus (run by GCHQ but operated in conjunction with the US) peered deep into the Soviet Union to monitor the missile tests and watch capabilities. The question of whether this latent power would be displayed in open form by the new government remained open as Mrs Thatcher crossed the threshold into Number 10 Downing Street to take up residence.

The Thatcher Premiership: British Power Redux?

There is a paradox at the heart of the eleven years of the Thatcher government which lies somewhere uneasily in the no-man's land between myth and reality. To borrow from the Italian writer, Tommaso Lampedusa, “for things to remain the same, everything must change”. Thus while the Thatcher “Revolution” – if that is how it has been described – remained akin to the permanent revolution of Mao, with continuous changes in policies, the economy and society in flux, of battles against “the Enemies Within” against striking trade unions, the deindustrialisation and business transformation, the upending of social norms, high levels of unemployment and increasing self-employment, the deregulation of controls and so on, it also emerged with much still the same.

With respect to Economic Power, the government sought to introduce monetarism but soon found that it lost control over its monetary base whose measures were in flux in part due to deregulation of the system by the government itself. It therefore abandoned monetarism on the quiet. Its claim that to “not have an industrial policy was itself an industrial policy”⁷ remained hollow as it sought to bailout the car industry with billions of pounds and urgently seek foreign investors (from Japan and the USA) to offload it onto. Dramatic headline falls in income tax were offset by significant increases in the VAT base such that the government tax take changed very little over the period [16]⁸. Mrs Thatcher came into power with increasing inflation and was to leave office with inflation taking off again and a further recession threatening.

Social peace – albeit marred by severe riots in several inner cities – was facilitated by North Sea oil revenues which would be ploughed into welfare costs and unemployment benefits for the three million or more without work, rather than into a Norwegian style sovereign wealth fund. The reality was that this so-called neoliberalism was essentially subsidised by the revenues derived from North Sea oil [16]⁹.

According to Talleyrand: “The art of statesmanship is to foresee the inevitable and to expedite its occurrence.” By this measure, Thatcher can be described as a “statesman” of the first order. Callaghan's political advisor, Bernard Donoghue reported that Callaghan remarked in the run up to the defeat in the 1979 General Election: “There are times, perhaps once every thirty years, when there is a sea-change in politics. It then does not matter what you say or what you do. There is a shift in what the public wants and what it approves of. I suspect there is now such a sea-change – and it is for Mrs Thatcher [18].”

Part of the secret of Mrs Thatcher's success was, less than creating a new ideology, than giving what the *public wanted* and *what it approved of*. Surely, in this regard, she may be viewed as a populist if not also a highly successful politician who won three elections (1979, 1983 and 1987). Thus, selling council homes to tenants was popular with such tenants who acquired their own housing at a subsidised price from local authorities; selling public utilities with monopolies to foreign investors, via privatisation to the general public, who enjoyed a low taxed windfall gain before the real purchasers (multinationals or city institutions)

⁶ RJ Aldrich & R Cormac, which comments on this intelligence failure being all the more remarkable given BP derived almost 50 % of its oil from Iran.

⁷ This statement was made by Keith Joseph, the Secretary of State for Industry in Thatcher's first cabinet. He would preside over government support to the state owned manufacturer, British Leyland, which served as a notorious example of Britain's failings in manufacturing in general and the car industry in particular. Elements were taken over by Honda and the USA, as well as later by the Indian Tata Group and Germany's BMW.

⁸ Appendix Table 25 shows tax revenue as a % of GDP of 32.7 in 1979 and 35.5 in 1989; Table 29 shows percentages of different taxes as part of total tax take – personal income tax accounted for 30.9 in 1979 and 26.5 in 1989 while VAT increased from 10.5 in 1979 to 16.9 in 1989.

⁹ Table 4 shows North Sea oil as accounting for 3.3 % of GDP in 1979, 7 % in 1985 and just 1.7 % in 1989.

acquired their majority stakes¹⁰; and also continuing with the mortgage subsidy for the middle class who benefitted from home ownership.

Mrs Thatcher also benefitted from her allusions to an “imagined community” of nineteenth century Victorian Britain of “thrift and enterprise”. This was poor history but “great” politics by creating symbols and allegories of Britain returning to a form of preordained path for re achieving greatness. There were also references to ungrateful or unreliable European partners based around the events of the Second World War – in this she tolerated her cabinet minister Nicholas Ridley’s pronounced Germanophobia¹¹ – and her casual dismissal of Black African leaders over South Africa’s apartheid.

In this venture, Thatcher was to be greatly assisted by her friends, allies and opponents. With respect to opponents, the Labour Party would split in 1980-1 with the newly created Social Democratic Party set up by Roy Jenkins and other Labour right wingers. It is perhaps the “iron law” of British politics that it remains high impossible for there to be a new breakthrough party that can overcome the duopoly exercised by the Conservatives and Liberals in almost one hundred years of parliamentary history¹². Mrs Thatcher’s chief opponents in the Labour Party would compound this by selecting two generally poor leaders, Michael Foot and Neil Kinnock. In the 1983 election, Labour’s manifesto would be described as “the longest suicide note in history”¹³ and the party would secure just 29% – a fall of 9% since 1979 and its worst election performance since 1918.

The British trade unions who had kept British governments in thrall for too long proved to be vulnerable in an age of increasing unemployment, an overvalued exchange rate (arising from North Sea oil) and a divided Labour Party and even more so after contributing to the Labour government’s fall in 1979 due to their industrial action. The mining and steel industries would be particularly hard hit over the period. (Mrs Thatcher’s populist crusade against trade unions would also extend to the banning of trade unions at the GCHQ Cheltenham base over allegations of union workers failing to translate messages intercepted of the Soviet invasion of Afghanistan in 1979.)

The Falklands War of 1982 would also seem to reward Thatcher with its chosen opponent, the military junta under General Galtieri, playing the oppressive military invader seeking to occupy the remnant of the British Empire in the South Atlantic. To retake the island – a considerable feat involving the transport of over 30,000 men over 6,000 nautical miles was facilitated by a curious array of friends and allies: the Chilean military junta under General Pinochet providing aid and assistance to Britain which would be repaid when Pinochet himself faced arrest in the UK in October 1998 on an international arrest warrant and was subsequently released; the US Defense Secretary Weinberger¹⁴, who over the hesitancy of President Reagan and Secretary Haig then banking on Argentinian military support for their Operation Condor, the assassination of left wing and other opponents in Central and South America, provided invaluable American arms and assistance to the overstretched British forces in the recapture; and the French President Mitterand.

As RT Howard noted in his book, Mitterand’s support for the UK was far from clearcut – he was, in another observer’s eyes a study in the ‘ambiguity of power’ [15] – and the French defence industry was then seeking “to make hay while the sun shined” by supplying the deadly Exocet missiles to the Argentinian airforce during the war. Mitterand’s personal respect for Thatcher served to avoid the French unambiguously assisting the Argentinians from sinking a far greater number of ships than they did. Mitterand’s characterisation of Thatcher revealed his preferences: “she has the lips of Marilyn Monroe and the eyes of Caligula.”

The Falklands War was a clear resurgence of Britain’s Military Power – a tribute to planning, logistics and sheer grit and determination by Britain’s armed forces – but without US arms (the Sidewinder missile) and French unwillingness to embark on major exports of missiles, as well as a more professional enemy force, it might yet have ended in a humiliating defeat to retake the island and with consequences for Thatcher herself.

Thus, British Military Power was enhanced and with that Political Power – as would again be witnessed after the Gulf War. The weakness still remained Economic Power.

Britain’s fragile economic underpinnings – notwithstanding rhetoric of a resurgence of entrepreneurship, thrift and economy – were exposed by the Lawson boom of tax cuts and a covert exchange rate policy of shadowing the Deutschmark at the expense of higher interest rates to curb “irrational exuberance” – led to increased inflationary pressures. Inflation increased from 3% to 8% and the rapid but belated increase in interest rates (to 15%) led to a recession in 1990-92 and significant levels of unemployment.

¹⁰ It is worth bearing in mind a further set of figures from Johnson, op cit, 1991: Table 23 shows a reduction in public sector workforce of 1.4 million (or 6.2 %) between 1979 and 1989 while Table 12 shows public expenditures, excluding privatisation, in 1979 amounted to 43.5 % in 1979-80 and 38.25 % in 1989-90.

¹¹ Ridley described the Economic and Monetary Union as “a German racket designed to take over the whole of Europe”. He was forced to resign from the Cabinet as a result.

¹² I would here refer the reader to my previous paper that looked at UKIP which also drew upon the case study of the SDP.

¹³ As attributed to Gerald Kaufman, the Labour MP.

¹⁴ Weinberger was US Defense Secretary from 1981 to 1987. He was awarded by HM The Queen, Honorary Knight Grand Cross of the Order of the British Empire, i.e. an honorary knighthood, in 1988 in recognition for an “outstanding and invaluable” contribution to military cooperation between the UK and the US, particularly during the Falklands War of 1982. He was convicted for his involvement in the Iran-Contra affair but pardoned by President Bush. He was viewed as a key Anglophile in the US government.

The Thatcher era would resemble the ambiguous situation regarding its Economic Power in terms of Political Power with respect to the USA and Europe. While there was much talk of a "Special Relationship" being rebuilt under Reagan and Thatcher with descriptions of them as "intellectual soulmates", the reality was not quite so clear cut [1].

Reagan had proved a somewhat half-hearted ally in the Falklands War; he misled Thatcher over the US occupation of the former British colony, Grenada in 1983 to foreclose a supposed Cuban airbase being built and had almost signed away Britain's nuclear deterrent in his talks with Gorbachev in Reykjavik.

Both collaborated however on confronting the Soviet Union particularly on supplying the resistance in Afghanistan; and denying Iran to Soviet encroachment. Indeed, a Soviet defector in Geneva provided SIS with information which was handed over to Khomeini government with which to wipe out the Iranian Tudeh (Communist) movement, a possible challenger to the Islamic regime [7]¹⁵. Britain also assisted in facilitating the US involvement in Nicaragua against the Sandinista government.

Thatcher's dealings with the European Union also remained ambiguous. She actively promoted the reduction in trading barriers within the Union and passed the Single European Act of 1986 which also saw the extension of Qualified Majority Voting, greater cooperation mechanisms and the creation of a Single Market. But Thatcher was to prefer US buyers over a European consortium for the Westland Helicopter factory; seek the rebates of funds going to the EU which he agreed with considerable reluctance by its European partners; and to avoid membership of the ERM.

Thatcher would also play a less than distinguished role in seeking to cast doubt over the German reunification. Her relations with Chancellor Kohl were not viewed as either warm or particularly sympathetic. While her fall from office was blamed on the introduction of the community charge (locally levied taxes) (the so called poll tax) and a collapse in relations with other senior party members, there were also a number of other factors involving the Economy and Europe.

The party coup that removed Thatcher and replaced her with John Major would not really resolve these issues. The limits of Leadership, even by Thatcher, were also exposed as both the issues of the Economy and the European relationship would not really be resolved during her premiership when she resigned in late 1990.

Conclusion

Britain's Military Power by the end of Thatcher's term in office would be generally restored although this had been assisted in the Falklands War by American arms and assistance. It had contributed to a possibly enhanced Political Power albeit with a number of constraints.

Firstly, the Military Power provided a false sense of comfort when it came to the actual degree of Political Power possessed. In terms of Europe, Military Power was channelled into NATO, which was still underwritten considerably by the US in terms of manpower, resources and its nuclear forces. Military Power did not necessarily translate into enhanced Political Power *per se* in terms of the European project given Britain was not an original founder and therefore its hierarchical standing (in terms of population, military coefficients etc) did not provide a commensurate influence in the chambers of the European project.

Britain's Economic Power still remained fragile and susceptible to boom and bust crises. The Thatcher era would witness this cycle of bust-to-boom-to-bust with familiar signs of issues of British industry's lack of competitiveness, inappropriate exchange rate policies and indeed economic policies with an overly narrow focus on the housing market and tax cuts to the detriment of others.

Leadership had perhaps arrested her decline but it still looked very much like a holding pattern as the UK waited on events. With China already moving ahead in the transformation to a form of (Communist party led) market capitalism since 1979, the collapse of the Soviet empire in Central and Eastern Europe (and certainly doubts over the fate of the USSR in view of Azerbaijan-Armenia problems in Nagorno-Karabakh as well as in the Baltics and Georgia, the reunification of Germany (despite some ill-advised talk by Mrs Thatcher to the contrary) of which the UK was privy to by virtue of its considerable intelligence services, the UK did not appear to be able to convert this into some form of enhanced Economic Power. Or perhaps it might be argued that the UK, given its reduced manufacturing base¹⁶, merely oriented itself to laundering the monies derived from the resulting upheavals¹⁷?

The fourth paper will look at the period from 1997 to the present day.

¹⁵ With respect to the faceoff between Iran and the UK/USA versus the USSR I am reminded of the 1981 James Bond film *For Your Eyes Only* in the final scene when Bond throws the ATAC machine off the cliff, turns to KGB General Gogol and says: "That's détente, General. You don't have it, I don't have it!"

¹⁶ There were some "archipelagos" of manufacturing excellence remaining after the UK recession of 1979-81, such as the arms industry, including BAE. Mrs Thatcher signed the multibillion pound Al Yamanah arms deal with Saudi Arabia in 1984. According to one estimate this company earned GBP 43 billion in the twenty years after 1985 from contracts with Saudi Arabia.

¹⁷ Thus, according to benchmark estimates by Picketty et al, Russia's offshore wealth is about three times larger than official net foreign reserves (about 75% of national income vs. around 25%), and is comparable in magnitude to total onshore household financial assets. A fair proportion of this is held in the UK or was facilitated through the City of London's financial institutions. See Working Paper 23712 <http://www.nber.org/papers/w23712>.

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